

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Request of Northern States
Power Company d/b/a Xcel Energy for
Approval of Selected Projects for the Second
Funding Cycle of the Renewable Development
Fund

ISSUE DATE: September 27, 2005

DOCKET NO. E-002/M-03-1883

ORDER ON RECONSIDERATION
MODIFYING COST ALLOCATIONS

PROCEDURAL HISTORY

On February 23, 2005, the Commission approved a petition from Northern States Power Company d/b/a Xcel Energy (Xcel Energy) to fund certain projects out of the Renewable Development Fund (RDF) as provided by Minn. Stat. § 116C.779.¹ In addition, the Commission provided for the RDF to fund a grant for an “innovative energy project” pursuant to Minn. Stat. § 216B.1694, subd. 2 (a) (8).

On March 25, 2005, Xcel Energy filed a copy of the grant contract it had negotiated with Excelsior Energy Inc. (Excelsior), the innovative energy project’s developer. Xcel asked the Commission to approve the contract and to authorize recovery of all the contract’s costs from Minnesota ratepayers. The Minnesota Department of Commerce (the Department) recommended approval.

On June 24, 2005, the Commission issued an Order approving the grant contract with modifications but directing Xcel Energy to allocate the contract’s costs throughout its system, to be recovered from ratepayers within and beyond Minnesota.²

On July 14, 2005, Xcel Energy asked the Commission to reconsider the allocation of the contract’s costs to ratepayers beyond Minnesota. In the alternative, Xcel Energy asked for permission to record the contract’s costs for potential reallocation and recovery from Minnesota ratepayers in the future. No party opposed Xcel Energy’s request.

¹ Order Approving and Directing Fund Expenditures, Giving Guidance on the Treatment of Innovative Energy Project, Requiring Consultative Process, and Requiring Compliance Filings.

² Order Modifying and Approving Grant Contract, Requiring Future Filings, and Denying Request to Depart from Inter-Jurisdictional Allocation Procedures.

On September 8, 2005, Xcel Energy's request came before the Commission.

FINDINGS AND CONCLUSIONS

I. Background

A. Jurisdictional Allocation Procedures

As noted in the Commission's prior Order, Xcel Energy serves ratepayers in Minnesota and neighboring states; it operates its generating facilities as an integrated system and allocates costs across the system based on numbers of ratepayers and other relevant factors. In a few cases, this and other state commissions have found certain costs to be so state-specific that they should be allocated only to the ratepayers of a specific state or states.

In 2004 the Commission issued an Order determining the proper allocation of Xcel Energy's RDF costs.³ The Commission agreed with Xcel Energy that expenditures for increases in generating capacity ("Category A" expenditures⁴) provide system-wide benefits and are sufficiently related to Xcel Energy's regular operations to warrant cost recovery from ratepayers throughout Xcel Energy's system. But the Commission also recognized that state-directed expenditures on basic research and development ("Category B") may be sufficiently removed from Xcel Energy's regular operations, and the benefits may be sufficiently indirect, to preclude system-wide cost recovery. On the theory that Xcel Energy would not have incurred these Category B costs in the absence of Minnesota's state policy, the Commission agreed with the parties that Xcel Energy could recover these costs exclusively from Minnesota ratepayers. For example, the Commission concluded that Minnesota ratepayers should bear the cost of –

- a \$10,000,000, one-time grant to the University of Minnesota to support basic and applied energy research and demonstration activities, required under H.F. 9, 2003, 1st Special Session, Article 2, Section 18;
- annual payments to renewable energy developers under the renewable energy production incentives program administered by the Minnesota Departments of Commerce and Finance under Minn. Stat. § 216B.1694, subd. 2; and

³ *In the Matter of the Petition of Xcel Energy for Approval to Separate Renewable Development Fund Cost Recovery from the Fuel Clause Adjustment, Establish a Renewable Development Fund Rate Rider, and Establish Deferred Accounting Treatment*, E-002/M-03-2018, Order Changing Inter-jurisdictional Cost Allocations, Establishing Rate Rider, and Removing Renewable Development Fund Expenses from the Fuel Clause (June 11, 2004).

⁴ The Category A, B and C designations derive from the Commission's Order Adopting Proposal for Oversight and Operation of Renewable Development Fund (April 20, 2001) in Docket No. E-002/M-00-1583, *In the Matter of the Request of Northern States Power Company d/b/a Xcel Energy for Approval of a Renewable Development Fund Oversight Process*. Category C was subsequently merged into Category B. *Id.*, Order Approving Selected RDF Projects and Requiring Filing on Process Improvements (April 3, 2002), n.2.

- grants for research and development projects, as well as the cost of administering the grants.

B. Excelsior’s Innovative Energy Project

An “innovative energy project” involves developing a high-efficiency combined-cycle coal-fueled electric generator that would emit less pollution than traditional technologies and would be “capable of offering a long-term supply contract at a hedged, predictable cost....”⁵ The project is eligible for a \$10 million grant from the Renewable Development Fund –

for development and engineering costs, including those costs related to mercury-removal technology; thermal efficiency optimization and emission minimization; environmental impact statement preparation and licensing; development of hydrogen production capabilities; and fuel cell development and utilization.⁶

II. Xcel Energy’s Request for Reconsideration

Xcel Energy asked the Commission to reconsider its decision denying Xcel Energy permission to recover all of the grant contract costs from Minnesota ratepayers. Xcel Energy renewed its argument that the costs are more akin to research and development costs than to simple construction costs. Moreover, Xcel Energy argued that it had no assurance that other states would authorize Xcel Energy to recover any portion of these cost from their ratepayers. Absent such assurance, Xcel Energy argued, the Commission must authorize full recovery from Minnesota ratepayers in order to ensure that Xcel Energy fully recovers its costs as provided by statute. Minn. Stat. § 216B.1645, subd. 2.

As an alternative to granting Xcel Energy permission to recover all these costs from Minnesota ratepayers, Xcel Energy asks for deferred accounting of these expenses. Deferred accounting would permit Xcel Energy to seek to recover these costs from Minnesota ratepayers if Xcel Energy failed to recover the expenses from ratepayers in other states.

III. Commission Action

Xcel Energy argued that the cost of the innovative energy project grant should be recovered from Minnesota ratepayers because, among other reasons, it more closely resembles a grant to a research and development project than a grant to a generating project. The Department supported this view. While the Commission initially declined to adopt this argument, the Commission is now persuaded of its merit.

As Xcel Energy and the Department acknowledge, the Excelsior grant is intended to result in the

⁵ Minn. Stat. § 216B.1694, subd. 1.

⁶ Minn. Stat. § 216B.1694, subd. 2 (a) (8).

construction of a generator. But these parties correctly note that the \$10 million grant is not nearly sufficient – and is not intended – to finance the entire plant. Rather, it is intended to finance the initial development stages. These initial stages, the parties argued, will resemble a research and development project. Thus, while the Commission characterized research as “incidental” to the entire project’s purpose, the Commission now acknowledges that research is central to the purpose of the initial \$10 million grant.

Consequently, the Commission concludes that the standard jurisdictional allocation procedures set forth in the June 2004 Order for “Category B” projects should be applied to the Excelsior project grant, and Xcel Energy may seek recovery of all Excelsior grant costs from its Minnesota ratepayers.

The Commission will so order.

ORDER

1. The Commission grants Xcel Energy’s request to reconsider its Order of June 24, 2005.
2. The Commission grants Xcel Energy’s request to allocate to Minnesota ratepayers all costs of the grant to Excelsior Energy Inc.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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